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# Ontario<sup>1</sup> Energy<sup>2</sup> Board

ANNUAL REPORT

<sup>3</sup>  
FISCAL YEAR ENDED MARCH 31, 1977



ANNUAL REPORT  
FISCAL YEAR ENDED MARCH 31, 1977



SEVENTEENTH ANNUAL REPORT  
OF THE  
ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1977







Ministry of  
Energy

416/965-4286

Queen's Park  
Toronto Ontario

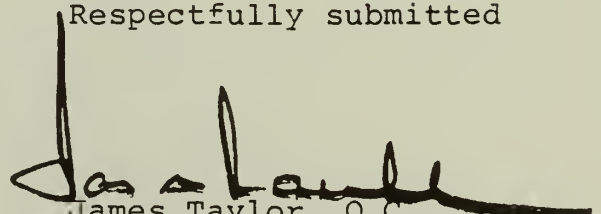
TO THE HONOURABLE PAULINE M. MCGIBBON  
O.C., B.A., LL.D., D.U. (OTT)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Seventeenth  
Annual Report for the Ontario Energy Board for  
the fiscal year ended March 31, 1977.

Respectfully submitted



James Taylor, Q.C.  
Minister





Ontario

the

Ontario  
Energy  
Board

416/965-6078

9th Floor  
14 Carlton Street  
Toronto Ontario  
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April 12, 1977

Honourable James Taylor, Q.C.  
Minister of Energy  
12th Floor  
56 Wellesley Street West  
Toronto, Ontario

Dear Mr. Taylor:

I have the honour to present herewith the Annual Report of the Ontario Energy Board for the fiscal year ended March 31, 1977.

Respectfully submitted,

A. B. Jackson  
Chairman



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# ONTARIO ENERGY BOARD

## ANNUAL REPORT

Fiscal Year Ended March 31, 1977

### INTRODUCTION

[ During the fiscal year ended March 31, 1977, there continued to be a heavy call on the Board's decision-making and reporting duties. The principal matters dealt with were again rate proceedings involving the three major natural gas distributors and Ontario Hydro. These, as almost all proceedings before the Board, require public hearings. ]

[ The Board completed the Phase I (rate base, return thereon and reasonable return) portions of the major rate applications of The Consumers' Gas Company ("Consumers'") and Union Gas Limited ("Union"). The Board also completed an update of the Phase I decision for Northern and Central Gas Corporation Limited ("Northern and Central"). Phase II (rate design) proceedings were in progress for the three distributors at the end of the fiscal year. These rate applications have resulted from continued escalation of the costs of gas and distribution. ]

[ As part of these proceedings, the Board heard applications for interim rate relief required principally to recover increases in the cost of gas purchased by the

distributors from TransCanada PipeLines Limited ("TransCanada"). These increased gas costs resulted from the Toronto city-gate price of natural gas being increased from \$1.25 per Mcf (thousand cubic feet) to \$1.405 per Mcf on July 1, 1976, and to \$1.505 per Mcf on January 1, 1977, by amendments to the Natural Gas Prices Regulations under the Petroleum Administration Act (Canada).

The Minister of Energy again referred to the Board for investigation and report the bulk power rates of Ontario Hydro ("Hydro"), in this case those proposed for 1977. The Ontario Energy Board Amendment Act, 1976, S.O. 1976, c. 21, had received Royal Assent on April 14, 1976. The effect of this amendment was to shorten the time for dealing with Hydro's proposal for 1977 bulk power rates. As the proposal has now been dealt with, the amendment is spent.

Later, the Minister of Energy also referred to the Board for investigation and report the principles of power costing and pricing appropriate for Hydro. Although the hearing will not commence until May, 1977, the Board and its staff have done considerable preparatory work during the fiscal year.

The Board has jurisdiction to authorize, in the public interest, the construction of pipelines carrying hydrocarbons, pipeline facilities and related expropriation of land. Having regard to the numerous factors that affect



the overall public interest, during the fiscal year the Board, in cooperation with several Ministries, prepared a document dated September, 1976, and called "Environmental, Agricultural and Resource Guidelines for the Construction and Operation of Pipelines in the Province of Ontario". Applicants to the Board will be expected to comply with the Guidelines and to provide related evidence.

On December 29, 1976, the Uniform System of Accounts for Gas Utilities Class "A" was amended to increase the allowable annual rate revenue of a gas utility from \$250,000 to \$1 million without the utility being classified as a Class "A" gas utility. The effect of the amendment is that The Medina Natural Gas Company, Limited remains exempt from the Uniform System of Accounts.

The Ontario Energy Board Amendment Act, 1975 (2nd Session), S.O. 1975, c. 8, which received Royal Assent on December 13, 1975, had not been proclaimed by the close of the fiscal year. The amendment would authorize the Board to require and implement allocation plans for gas distributors in the event of gas shortages.

The Ontario Energy Board Amendment Act, 1976 (Bill 109) received first reading on June 15, 1976, but was not proceeded with further. The Bill would authorize customer support for certain gas supply related investments by gas

utilities. It resulted from recommendations of the Board in a report to the Lieutenant Governor in Council last year.

#### COMPOSITION OF THE BOARD

At the end of March, 1977, the Board consisted of nine members, namely:

|                           |               |
|---------------------------|---------------|
| A. B. Jackson, Q.C.       | Chairman      |
| I. C. MacNabb, P.Eng.     | Vice-Chairman |
| W. W. Stevenson, Ph.D.    | Member        |
| S. J. Wychowanec, Q.C.    | Member        |
| H. R. Chatterson, B.Comm. | Member        |
| J. C. Butler, P.Eng.      | Member        |
| J. R. Dunn, P.Eng.        | Member        |
| D. M. Treadgold, Q.C.     | Member*       |
| J.A.W. Whiteacre, Q.C.    | Member*       |

The Board regrets the sudden death of one of its members, Mr. R. H. Lamb, in September, 1976. In October, Mr. G. W. Clayton, a part-time member, resigned from the Board. During the fiscal year the Board was strengthened by the addition of Mr. Butler, former Director of Operations for the Board, and by Mr. Dunn. Dr. Stevenson will be assigned to the Royal Commission on Electric Power Planning for most of the 1977-78 fiscal year.

The principal staff of the Board were:

|   |               |
|---|---------------|
| Board Secretary   | S.A.C. Thomas |
| Energy Returns Officer and<br>Manager, Financial Analysis | O. J. Cook    |
| Director of Operations                                    | D. D. McLean  |

---

\*Part-time

|                          |                   |
|--------------------------|-------------------|
| Board Solicitor          | L. Graholm        |
| Special Projects Officer | D. R. Cochran     |
| Manager, Engineering     | C. J. Mackie      |
| Board Engineer           | H. Strozyk        |
| Manager, Rate Design     | Dr. M. Jackson    |
| Financial Analyst        | A. Meddows-Taylor |
| Financial Analyst        | A. Parekh         |

In May, 1976, Miss Ivy C. Fidler, who had been associated with the Board and its predecessor, the Ontario Fuel Board, since the inception of the latter Board in 1954, retired as Secretary to the Ontario Energy Board.

#### SUMMARY OF PROCEEDINGS BEFORE THE BOARD

One hundred seven proceedings were commenced before the Board during the 1976-77 fiscal year: 98 by application, 5 by ministerial reference and 4 by letter request. A classification of proceedings completed during the fiscal year is as follows:

#### Under The Ontario Energy Board Act

|  | <u>Number</u> |
|--|---------------|
| Rates and other charges for gas . . . .  | 27            |
| Leave to construct pipelines . . . .     | 2             |
| Land expropriation for pipelines . . . . | 24            |

|                                   | <u>Number</u> |
|-----------------------------------|---------------|
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| Acquisitions . . . . .            | 1             |
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Under The Municipal Franchises Act

|                                      |            |
|--------------------------------------|------------|
| Approval of gas franchises . . . . . | 40         |
| Certificates . . . . .               | <u>1</u>   |
| TOTAL                                | <u>105</u> |

As in the past, hearings were held at locations convenient to interested parties. Twenty-seven were held outside Toronto: at London, Sarnia, Fort Frances and Mount Forest. Of these, 24 were expropriation hearings.

ANTI-INFLATION PROGRAM

Because of section 4.1 of the Anti-Inflation Act (Canada), the Board has been applying the Anti-Inflation Guidelines in regulating the rates of gas distributors. The Board also applied the spirit and intent of the Guidelines, as prescribed for Ontario Hydro by the Provincial Government, in reporting on the bulk power rates of Hydro. Specifically, in each case the Board tested proposed rates by the profit margin rules set out in section 18 of the Guidelines.

However, both the Kingston Public Utilities Commission and the City of Kitchener have gas distribution operations which are not regulated by the Board. The Government felt that these utilities too should be subject to the Anti-Inflation Guidelines in the same way as other gas utilities. This was accomplished by their agreeing to voluntarily submit to price monitoring by the Energy Returns Officer of the Ontario Energy Board.

In each case the utilities are complying with section 18 of the Anti-Inflation Guidelines.



NATURAL GAS

Rates

1. THE CONSUMERS' GAS COMPANY

Phase I Proceedings

[ Reasons for Decision dated June 30, 1976, marked the conclusion of Phase I proceedings initiated by the main application of September, 1975, to determine Consumers' rate base, the return thereon and a reasonable return.]

[ The test year was the fiscal year ended September 30, 1974. During the proceedings the Applicant also submitted figures for rate base and utility income for the fiscal year 1975 and 1976 estimated.]

③ The Board made the following findings:

|                             | <u>1974</u>   | <u>1975</u>   | <u>1976</u>   |
|-----------------------------|---------------|---------------|---------------|
| Rate Base                   | \$555,496,100 | \$594,712,100 | \$641,298,700 |
| Utility Income              | \$ 46,945,600 | \$ 51,109,900 | \$ 55,583,500 |
| Indicated Rate<br>of Return | 8.45%         | 8.59%         | 8.67%*        |

[ The Board approved the inclusion of Ontario exploration, development and production activities, with the exception of the Hudson Bay activities, in rate base. This included

---

\*Before adjusting for the February 1976 interim rate increase.

the Crowland Area development costs which had been excluded from rate base in the Board's earlier Phase I decision of July 9, 1974. The Board concluded that Underwater Gas Developers Limited, a wholly-owned subsidiary of Consumers' carrying on drilling operations, should be consolidated with Consumers' and its two other subsidiaries for regulatory purposes, and directed Consumers' to provide figures on that basis for future major rate applications.

Contrary to its earlier decision, the Board allowed joint clamping costs to be expensed rather than capitalized in order to provide consistency between accounting and rate-making treatment.

The Board denied Consumers' request to recognize deferred income taxes as a cost of service but accepted the tax allocation accounting approach followed by the Company for certain short-lived assets and for the assets related to exploration, development and production activities.

The Board found that a reasonable rate of return on rate base for Consumers' is 10.1 percent determined, after rounding, as follows:

| <u>Capital Component</u> | <u>Percentage</u> | <u>Rate</u> | <u>Component</u> |
|--------------------------|-------------------|-------------|------------------|
| Long-term debt           | 55.7              | 8.27%       | 4.61             |
| Deferred taxes           | 3.1               | 1.56%       | 0.05             |
| Preferred shares         | 5.1               | 7.31%       | 0.37             |
| Common equity            | <u>36.1</u>       | 14.00%      | <u>5.05</u>      |
| TOTAL                    | <u>100.0</u>      |             | <u>10.08%</u>    |

The Board determined the revenue deficiency, using fiscal 1976 figures adjusted for the February 1976 rate increase, to be \$6,572,900. ]

Recognizing that it is beyond its jurisdiction to specifically prohibit the attachment of new customers by Consumers', the Board strongly suggested that Consumers' not make extensions to its existing system unless the revenue to be generated by the new business provides a return on the marginal investment at least as great as that allowed by the Board on rate base with full provision for incremental costs associated with the new business.

[ The Board confirmed all interim rate increases granted during the course of the Phase I hearing. ]

#### Interim Proceedings

By an application dated May 25, 1976, Consumers' applied to amend its main application to seek approval of, inter alia, across-the-board rate increases to recover the added cost of 15.89¢ per Mcf for its basic supply of gas from TransCanada effective July 1, 1976.

The Board granted the interim rate relief and stated that, in its opinion, the Guidelines under the Anti-Inflation Act (Canada) were complied with. The Board agreed with the Company's proposal to delay passing on the benefits of gas storage inventory until the determination of an



appropriate implementation date for the passing on of the January 1, 1977, increase that had been announced by the Federal Government.

The May 1976 application also sought rate increases to recover any revenue deficiency determined in Phase I. As indicated, the Board found a deficiency of \$6,572,000.

Consumers' submitted that the deficiency be recovered by new rates which move in the direction indicated by the Board in its earlier Phase II decision. In its decision of September 24, 1976, the Board accepted Consumers' rate proposals, with the exception of a rate deviation clause, subject to possible refund or adjustment.

In its decision the Board stated the general principle that an interim proceeding is an inappropriate time for partial adjustment of Phase I calculations.

In a supplementary decision later in the month, the Board approved an interim rate schedule applicable to Ontario Hydro's R. L. Hearn Generating Station, as Hydro's contractual rate could not be accommodated by the previously-approved schedules.

The May 1976 application also requested interim rate increases to recover increased gas costs due to the announced January 1, 1977, increase in TransCanada's rates. Consumers' submitted that these costs should be passed on by increasing all rates by 9.09¢ per Mcf on a straight commodity basis effective February 24, 1977.

In its decision of January 21, 1977, the Board noted that the Company had changed its method of determining the effective date of gas cost increases so that all inventory gas is deemed to flow out of storage and the problem of unrecycled gas therefore will not arise in the future.

The Board considered increases in storage and transportation charges payable to Union as an expense which should not be absorbed by Consumers' but provided for in setting the effective date of the rate increase. The Board granted the requested relief subject to possible refund or adjustment, but, after adjusting for previously unaccounted-for credits for gas inventory, changed the proposed effective date to March 6, 1977.

#### Phase II Proceeding

The May 1976 application also requested that Phase II (rate design) of the main application be brought on for hearing.

The hearing commenced on October 7, 1976, and was completed on December 22, after 16 sitting days. All argument was submitted by February 28, 1977. As at March 31, 1977, the Board was deliberating on the evidence and argument before it.

2. UNION GAS LIMITED

Phase I Proceedings

[ On April 12, 1976, the Board refused the request of the City of Kitchener that the Board re-open and review its October 1975 Phase II decision insofar as the wholesale rate applying to Kitchener is concerned. ]

[ On June 30, 1976, the Board handed down its Phase I decision in respect of Union's November 1975 main rates application. ]

[ The Board accepted the 1976 fiscal year (ended March 31, 1976) as the test year. The financial data available for this period were nine months actual figures and three months estimated. The Board directed Union to file annually on or before April 1 with the Energy Returns Officer its forecast of expenses for the forthcoming year, and its forecast of capital expenditures for a three-year period. ]

[ Rate base was determined to be \$467,037,000 and reasonable rate of return 10.14 percent. The latter figure was determined from the cost of the various components of capital, as follows:

|                   |        |
|-------------------|--------|
| Long-term debt    | 8.53%  |
| Preference shares | 7.18%  |
| Common equity     | 14.50% |

Test year utility revenue annualized for interim rate increases was \$397,557,000. The total cost of service,

including a fair return, was determined to be \$413,980,000. Consequently, the revenue deficiency found by the Board was \$16,423,000.]

[ The Board found that the accumulated depreciation shown by Union was adequate and that Union's claim of \$79,612,000 for gas in storage and in line pack should be reduced by \$7,282,000 in order to reflect the combination of the average volumes in the test year and in the projected 1977 fiscal year.]

The Board determined that short-term debt, which amounted to \$67.1 million, should not be included in capital structure. However, for purposes of calculating income taxes, the Board took into account the cost of short-term debt.

[ The Board found that Union's depreciation rates should not be increased, but agreed that when decisions have been made by the National Energy Board and the Federal Power Commission on the transportation of frontier gas, the evidence on economic life then available may warrant an application to the Board for a revision of depreciation rates.]

#### Interim Proceedings

Union requested three interim rate increases during the fiscal year.



The first application, dated June 10, 1976, requested recovery of any deficiency to be determined by the Board in its Phase I decision and the July 1, 1976, TransCanada and other gas supplier increases. The application was later amended to request \$2.9 million additional revenue to maintain the estimated earnings level in fiscal 1977 at the level reported for fiscal 1976. The Board allowed on a refundable basis an increase of approximately 43¢ per Mcf to residential customers, including an increase of \$1.00 in the monthly fixed charge, and lesser increases to other fixed rate customers, effective October 19, 1976, rather than September 1, 1976, as requested. The change in the effective date was due to the Board's denial of Union's request for the recover of the additional revenue of \$2.9 million. To range rate customers the Board allowed increases in accordance with the gas cost escalation clauses in their contracts (about 17¢ per Mcf), effective September 1, 1976.

The second application, dated October 18, 1976, requested, inter alia, an interim increase of 3.5¢ per Mcf from residential customers and in the firm rate applicable to the City of Kitchener. Such increase would enable Union to recover approximately \$1.8 million to defray wage increases. The Board allowed on a refundable basis the 3.5¢ per Mcf increase to residential customers, effective December 1, 1976, but denied the proposed increase to the City of Kitchener.

The third application, dated January 20, 1977, requested interim relief of 9.05¢ per Mcf from fixed rate customers and 8.7¢ per Mcf from range rate customers in order to recover increases in purchased gas costs effective January 1, 1977, together with the associated increase in the carrying cost of gas in storage. The Board granted, on a refundable basis, the requested increases, effective March 1, 1977.

### Phase II Proceedings

As indicated in the annual report for fiscal 1976, Union's Phase I application included a proposal that customers receiving gas at reduced rates under old right-of-way agreements and customers receiving free gas because of old oil and gas leases or franchise agreements should pay the regular rates. This proposal, which was proposed to be argued before the commencement of Phase II, was withdrawn by Union in August, 1976.

Union's October 1976 application requested that Phase II (rate design) of the main application be brought on for hearing. The hearing commenced on November 24, and concluded on March 23, 1977, after 16 sitting days. Written argument is to follow.

### 3. NORTHERN AND CENTRAL GAS CORPORATION LIMITED

#### Phase I Update

Phase II of Northern and Central's main application of October 10, 1973, which was scheduled to commence April 5, 1976, was adjourned because the Applicant was not prepared to proceed.

Then on May 7, 1976, Northern and Central applied to update some of the Board's findings in its Phase I decision of May 9, 1975. Specifically, the Applicant requested the Board to make rate base and cost of service findings for 1975 and submitted that Phase II rates should be based on such findings. No revision was requested to the previously-found figure of 9.51 percent for reasonable rate of return.

In a decision dated September 30, 1976, the Board found 1975 test year rate base to be \$145,749,546 and cost of service to be \$169,134,175. On the basis of 1975 test year revenues, Northern and Central was found to have overearned by \$2,936,963.

In October of 1976 Northern and Central requested the Board to rehear and review certain aspects of the September decision. The Board proceeded to hold the hearing late in October. At the same time Northern and Central petitioned the Lieutenant Governor in Council in respect of the same matters. The petition was abandoned by Northern and

Central after the decision of the High Court, which is referred to later in this section.

In its decision of December 7, 1976, the Board confirmed its September decision. Northern and Central then applied for judicial review in respect of two of the adjustments to its cost of service that had been made by the Board. These concerned a management fee allegedly paid by Northern and Central to its parent, Norcen Energy Resources Limited, and head office overhead.

The application was dismissed by the High Court on January 27, 1977. Regarding the Norcen management fee, the Court held that the Board's decision did not warrant review and that this was not a case where there was no evidence before the Board. Regarding head office overhead, the Court held that the Board's decision was right and that even if the Board had been wrong this was not a case in which a court should exercise its discretion and set the findings aside.

The Board had earlier found that an across-the-board rate reduction of 2.48¢ per Mcf would correct Northern and Central's overearning position. On February 14, 1977, the Board ordered refunds with interest for the over-collection during the period from November 8, 1975, to January 12, 1977, and reduced Northern and Central's rates by 2.48¢ per Mcf as of January 13, 1977. On this latter date Northern and Central also received an interim rate increase of 11.822¢ per Mcf, as indicated in the next section.



Interim Proceedings

During the fiscal year under consideration Northern and Central, like Consumers' and Union, received interim rate increases due to the July 1, 1976, and January 1, 1977, TransCanada increases. These increases were granted subject to refund or adjustment. The January 1977 increase was applicable only to firm and fixed rate volumes.

Changes to Northern and Central's rates are summarized in the following table:

| Effective Date   | Particulars   | Increase in ¢/Mcf |                 |                |
|------------------|---|-------------------|-----------------|----------------|
|                  |   | Western Region    | Northern Region | Eastern Region |
| July 1, 1976     | TransCanada increases of December 1, 1975, and July 1, 1976 | 15.29             | 15.718          | 15.59          |
| January 13, 1977 | Reduction due to overearnings                               | (2.48)            | (2.48)          | (2.48)         |
|                  | TransCanada increase of January 1, 1977                     | 11.822            | 11.822          | 11.822         |

Phase II Proceedings

The hearing of Phase II (rate design) of Northern and Central's main application finally commenced on September 13, 1976, continued intermittently, and is continuing beyond March 31, 1977.

4. OTHERS

The Medina Natural Gas Company, Limited ("Medina") was granted an interim rate increase of 40¢ per Mcf on bills rendered on and after January 1, 1977. In the case of consumption in excess of 1000 Mcf per month, the increase was 16¢ per Mcf. For Medina's Belmont Division (see Acquisitions section) the increase allowed was 75¢ per Mcf for all consumption. The larger increase in the case of the Belmont Division was the first step in establishing system-wide rates for Medina. In its decision the Board also granted Medina a further interim increase of 10¢ per Mcf for both divisions, effective with bills rendered on and after February 1, 1977.

The increased interim rates granted to Medina were due to increased costs, principally increased gas costs from its suppliers. The Board stated that it would not be useful to bring the main application on for hearing while Medina continues to operate at a loss.

Inter-City Gas Limited ("Inter-City") was granted firm rate increases totalling 15.7¢ per Mcf due to increased gas costs from its supplier, ICG Transmission Limited. 14.22¢ of this was effective for billings after September 15, 1976, and the balance, which was granted without a hearing, was effective for billings after February 1, 1977.

The Board also approved changes to the rates applicable to Ontario and Minnesota Pulp and Paper Company Limited

("O & M"), Inter-City's largest customer, and granted temporary winter service rates applicable to O & M. Rates were also granted to permit Inter-City to serve 256915 Wood Products Limited on the Manitou Rapids Indian Reserve near Emo, Ontario. As the customer is not located in a municipality, it was not necessary for Inter-City to apply for a franchise and certificate.

At the beginning of the fiscal year under review the Board extended the existing rates of Tecumseh Gas Storage Limited ("Tecumseh") and granted Farmers' Gas Company Limited ("Farmers'") increased rates, both without a hearing for a period of not more than a year. At the end of the fiscal year the Board again extended Tecumseh's rates.

#### Accounting Orders

Under the Uniform System of Accounts, Consumers' requested approval of a revised list of plant units and certain changes in the minimum rule regarding costs to be charged to plant accounts. In September, 1976, the Board granted approval and ordered that the revisions become effective October 1, 1976.

In October, 1976, the Board approved the depreciation rates of Inter-City. The rates approved were those used by Inter-City in its cost of service calculation and earlier accepted by the Board for the test year ended December 31, 1974.

Northern and Central in January, 1977, requested a determination by the Board of a question of doubtful interpretation of the accounting rules relating to certain types of expenditures. The Board determined that the expenditures in question should be expensed rather than capitalized and issued its order in February, 1977.

### Drilling

The Minister of Natural Resources is required to refer to the Board for report applications to the Minister for permits to drill wells in designated gas storage areas.

During the fiscal year the Board reported to the Minister on applications to drill 14 such wells. The Applicants were Union Gas Limited and Tecumseh Gas Storage Limited. The designated gas storage areas involved were the Dawn 59-85, the Payne, the Bickford and the Seckerton Pools.

In each case the Board was of opinion that there were no special circumstances necessitating a public hearing, and recommended that the permits applied for be granted.

### Pipelines

Two applications by Union Gas Limited related to the construction of five 42-inch looping sections of its Dawn-Trafalgar transmission lines that were heard by the Board in January of 1976 were granted subject to conditions.



One order granted leave to commence construction of a 4.6-mile section from the Brooke Valve Site in the Township of Brooke to the proposed Kerwood Valve Site in the Township of Metcalfe.

The other order granted leave to construct the following four sections totalling 41.9 miles, together with additional valving facilities: three sections totalling 30.7 miles from the Strathroy Gate Station in the Township of Cardoc to the St. Mary's Valve Site in the Township of West Nissouri; and an 11.2-mile section from the Bright Compressor Station in the Township of Blandford-Blenheim to the Kitchener-Owen Sound Line Valve Site in the Township of North Dumfries. The latter section was to be either 36 or 42 inches in diameter. Construction is not to commence on any of the four sections until further hearings are held at which Union must show that construction of each section continues to be economically feasible.

In its decision the Board indicated that, in future, applicants for leave to construct looping pipelines located beside an existing line would be required to serve notice on each affected landowner personally or by registered mail.

An application by Union to construct 1.9 miles of 12-inch pipeline to serve Ontario Hydro's J. Clark Keith Generating Station in Windsor that was heard in 1971 and adjourned to permit further negotiations with Hydro was withdrawn upon the request of Union.

The appeal by Union and Tecumseh to the Divisional Court in respect of a zoning by-law passed by the Township of Dawn Council and approved by the Ontario Municipal Board has now been heard. In Reasons for Decision released February 22, 1977, the Divisional Court held that section 4.2.3 of the By-law, which provided that all transmission pipelines in the municipality are to be constructed in specific corridors, is ultra vires the municipality. The Court held further that all matters relating to or incidental to the production, distribution, transmission or storage of gas, including the setting of rates, location of lines and appurtenances and expropriation of necessary lands and easements, are under the exclusive jurisdiction of the Ontario Energy Board and are not subject to legislative authority by municipal councils under The Planning Act.

#### Expropriations

Twenty-four orders authorizing Union to expropriate pipeline easements were issued during the fiscal year. Twenty-three of these were in respect of Union's program of looping its Dawn-Trafalgar transmission lines. Five of the 23 were to provide extra width for a limited time to facilitate construction of the pipeline.

The other order was in respect of the Waterloo-Owen Sound loop line.

The Board holds expropriation hearings in the local areas to encourage presentation of evidence by the land-owners.

### Exemptions

An exemption order was issued to Union to permit construction of a 6-inch transmission line from Cayuga Gate Station at the eastern limit of the old Village of Cayuga along Provincial Highway #3 to Provincial Highway #56, a distance of about four miles.

### Franchises and Certificates

During the course of the fiscal year the Board approved the terms and conditions and period of 40 gas distribution franchises for the following distributors in the following municipalities:

Northern and Central - the Cities of Belleville and Orillia, the Towns of Bracebridge, Cobourg, Ganonoque, Gravenhurst and Huntsville, the Villages of Iroquois and Morrisburg, the Townships of Front of Leeds and Lansdowne, Hope, Murray, Orillia, Richmond, Sidney, Thurlow and Williamsburg, the Union of Townships of Eilber and Devitt.

Union - the Towns of Bothwell and Petrolia, the Villages of Oil Springs, Point Edwards and Thamesville.

Consumers' - the Cities of Brockville, Pembroke and Welland, the Towns of Aurora, Bradford, Grimsby, Hawkesbury, Lincoln, Newmarket, Niagara-on-the-Lake, Renfrew, Vankleek Hill and Vaughan, the Village of Cobden, the Townships of King, Pakenham and West Lincoln.

In each case, except that of the Union of Townships of Eilber and Devitt, the distributor had previously been franchised in the municipality. In each case the Board declared and directed that the assent of the municipal electors to the by-law granting the franchise was not necessary.

In Reasons for Decision for the Town of Huntsville franchise, among other cases, the Board stated that it wishes to prevent the possibilities of two different franchises granted to a distributor being effective at the same time throughout a municipality or in part of a municipality. The Board's approvals were therefore conditional on previous by-laws granting franchises still effective in the present area of the municipality being repealed.

In Reasons for Decision for the Village of Morrisburg franchise, the Board stated that in ordinary circumstances at this time something in the order of 20 to 30 years is appropriate as the term of a franchise.



In July of 1976 the Board granted Consumers' a certificate of public convenience and necessity to supply gas in the Town of Fort Erie. The application had been adjourned from 1967 pending resolution of the question of the validity of Consumers' franchise for Fort Erie.

### Discontinuance of Service

#### 1. Union Gas Limited

In July, 1976, the Board rendered its decision on Union's discontinuance application mentioned in the last annual report. The Board granted Union leave to discontinue service to 110 customers on 21 sections of line in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth.

The Board found that these lines are in such a deteriorated condition that they should be abandoned or replaced and that replacement would result in an excessively high degree of subsidization of the 110 customers by other customers.

The Board stated that although customers are not entitled as of right to compensation or changeover assistance upon termination of service, in this case they are. Leave to discontinue was made conditional on compensation or changeover assistance being paid according to a formula similar to that prescribed by the Board in the case of Union's 1973 discontinuance proceeding in the same area.

2. Farmers' Gas Company Limited

In March, 1976, the certificate of incorporation of Farmers' Gas Company Limited ("Farmers'") of Kingsville was cancelled by the Minister of Consumer and Commercial Relations for failure to comply with The Securities Act, and the Company was declared to be dissolved.

Union, which was supplying gas to Farmers', continued to do so while discussions took place between Mr. Mancini, the M.P.P. for Essex South, various government officials, including the Vice-Chairman of the Board, Union, and some of the customers of Farmers'. As no reasonable arrangement whereby the customers of Farmers' would continue to be served was apparent, at least at present. Union discontinued its supply to the system in the fall of 1976.

Acquisitions

1. The Medina Natural Gas Company, Limited

In May, 1976, the Board reported to the Lieutenant Governor in Council on the application of Donald F. Lowrie and Harold E. Stafford to acquire in equal proportions all the shares of Medina from Hulme H. Pattinson and his associates. The proposed agreement between the parties was conditional on Medina acquiring the Belmont distribution system from The Central Development Company, Limited ("Central Development").

The Report stated that in the Board's opinion the transfer of the share control of Medina would serve the public interest and the leave applied for should be granted.

By Order-in-Council O.C. 2194/76 dated July 28, 1976, the leave requested was granted. As a condition to leave being granted, Messrs. Lowrie and Stafford accepted certain conditions contained in a letter dated June 28, 1976, and signed by the Ministers of Energy and Consumer and Commercial Relations. Among them is a commitment to achieve, in the absence of unforeseen occurrences, less than 10 percent unaccounted-for gas within two to three years.

2. The Central Development Company, Limited

In March, 1975, the Board had reported its opinion to the Lieutenant Governor in Council that leave should be granted to Central Development to sell the Belmont distribution system to Medina for \$14,500.

Order-in-Council O.C. 2194/76, besides approving the Medina share transfer, granted leave for the transfer of the distribution system to Medina. Central Development therefore disappears from the scene as a gas distributor.

## STEAM RATES

A new maximum tariff of steam rates, including a change in its fuel adjustment clause, was approved for Industrial Steam Limited ("Industrial Steam") of Ajax as of May 1, 1976, for a period of not more than one year. The rates are to apply uniformly to all customers.

Although not required by law to use the rate base-rate of return method for fixing the rates of Industrial Steam, the Board stated that it has found that that method is best for arriving at just and reasonable utility rates. The Board estimated that the rate base of Industrial Steam as of December 31, 1976, would be \$1,000,000 and assumed that 10 percent would be a reasonable rate of return.

The rates approved by the Board were 45¢ per 1000 lb. less than those proposed by Industrial Steam.

In February of 1977 the Board received a new application from Industrial Steam for further rate relief.

## ONTARIO HYDRO

### Bulk Power Rates

In June of 1976 the Select Committee of the Legislature submitted its final report recommending, inter alia, no



change in the 22 percent increase in Ontario Hydro's 1976 bulk power rates that the Committee had earlier recommended and that had been implemented by Hydro.

In the same month the Minister of Energy referred Hydro's proposed bulk power rates for 1977 to the Board for investigation and report. The Board was specifically requested to report on

- a) Hydro's financial condition through reference to its principal financial indicators, and
- b) the appropriateness of the proposed rates in relation to the spirit and intent of the federal Anti-Inflation program as prescribed for Hydro by the Provincial Government.

The hearing commenced on August 3, 1976, and concluded on August 20. Of the 14 intervenors, two, namely the Consumers' Association of Canada and the Ontario Municipal Electric Association, participated throughout the hearing.

In its report dated September 30, 1976, the Board stated that it would be concerned if Hydro's trend to a higher debt ratio continued. The Board was of opinion that Hydro's interest coverage of 1.00 or 1.05 is inadequate and that restoration of that indicator to a more respectable level is of paramount importance. The Board indicated that the fact that Hydro is complying with the borrowing

guidelines laid down by the Provincial Treasurer should maintain, if not enhance, its financial integrity.

The Board stated that the key issue in the hearing was the apparent conflict between the need to maintain Hydro's financial integrity and the need to comply with the spirit and intent of the Anti-Inflation Guidelines.

With the exception of the depreciation expense, the Board accepted Hydro's estimate of 1977 costs. The Board recommended a revenue allowance of about \$1.7 billion from bulk power sales, which results in rate increases in the order of 30.3 percent. The Board found that this was within the guidelines prescribed for Hydro by the Provincial Government.

Hydro proposed a revised depreciation policy which would have added \$12 million to bulk power costs. The Board questioned the comprehensiveness of Hydro's depreciation study but stated that in any case it would not have recommended implementation of the new policy at this time because it appeared to be in breach of the spirit and intent of the Anti-Inflation Guidelines.

Some of the other matters dealt with by the Board were:

- a) Hydro proposed rate increases varying from 30 to 69 percent, depending on degree of interruptibility and class of power, for



its direct customers. The Board recommended that proposed increases exceeding 50 percent be limited to 50 percent; and

- b) Hydro charged the extraordinary loss of \$60 million, due to the cancellation of the partially constructed Bruce Heavy Water Plant "C", against income in 1975 and reduced the reserve for rate stabilization by a similar amount. While the Board recognized that there may have been other accounting methods available to Hydro in recording this loss, the Board did not consider it necessary to retroactively impose another method on Hydro, and therefore accepted Hydro's treatment.

The rates recommended by the Board were accepted by the Government and by Hydro, and implemented by Hydro.

#### Costing and Pricing

By reference dated February 24, 1977, the Minister of Energy referred to the Board, for examination and report after a public hearing, the principles of power costing and wholesale and retail rate-making appropriate for use by Ontario Hydro, particularly the principles set forth in the Hydro reports entitled "Electricity Costing and Pricing

Study" and "Depreciation Policy and Procedures for Major Fixed Assets in Ontario Hydro". The 10-volume "Electricity Costing and Pricing Study" had been tabled in the Legislature in October, 1976.

Consultants have been retained to assist the Board and its staff. A public preliminary hearing was held on March 30, 1977, to settle procedural matters. The hearing itself will commence on May 16, 1977. The public has been invited to make submissions and participate in the hearing.



